

Massmart Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration Number: 1940/014066/06)
Share Code: MSM
ISIN: ZAE000152617
("Massmart" or the "Company" or "the Group")

Sales update and trading statement, update on portfolio review and capital structure update

1. Group Sales update – 48-week period ending 28 November 2021

Total group sales for the 48-week period ended 28 November 2021 amounted to R75.3 billion, which was 1.3% lower than the same period in 2020. Sales were impacted by various factors, including; Covid-19 liquor trading restrictions, lost sales from stores damaged during the July unrest in Gauteng and KwaZulu-Natal and unrest related supply chain disruption resulting in insufficient in-stock service levels of certain home electronics and appliances lines. Sales from continuing operations of R69.7bn were 0.9% higher than in 2020, with comparable store sales from continuing operations 3.6% higher. Sales from continuing operations for South African stores of R63.1bn were 1.9% higher than 2020, whilst comparable store sales from continuing operations were 5.0% higher. Sales from continuing operations from our ex-South African stores of R6.6bn were 8.3% lower than in 2020, whilst comparable store sales were also 8.3% lower.

As was the case in the prior year, Massmart extended the traditional Black Friday event into a 4-week long 'Black November' event, in an effort to alleviate the pressure of foot traffic in stores in consideration of Covid-19 safety protocols, and to allow customers to benefit from promotions over a longer period of time. Total sales were impacted by stores damaged by the looting and still remaining closed, or operating at limited levels, most notably the two Makro stores in Pietermaritzburg and Springfield, and some of our damaged Game stores. During the month, sales at comparable stores, which account for stores opened or closed during the period as well as stores impacted by the looting, amounted to R9.2bn and was broadly in line with last year's black November event.

2. Trading Banner Sales Update

At Makro, total sales of R25.4bn for the 48-week period were 8.0% higher than in 2020, whilst comparable store sales were 12.0% higher.

Sales in our Wholesale Cash & Carry business of R17.1bn for the 48-week period were 5.8% lower than the same period in 2020, whilst comparable store sales were 1.3% lower. This was largely the result of lower sales to the Hospitality, Restaurant and Catering (HORECA) sector which continues to be significantly impacted by the negative consequences of the Covid-19 pandemic.

Builders total sales of R13.6bn for the 48-week period were 8.1% higher than the same period in 2020, whilst comparable stores sales increased by 5.9%. Retail sales continue to perform at strong levels, whilst trade sales to contractors have remained softer, due to slow re-commencement of Covid-19 impacted large commercial construction projects and infrastructure development by Government, both of which remain at low levels.

At Game, total sales of R13.6bn for the 48-week period were 8.4% lower than the same period in 2020, whilst comparable store sales were 6.0% lower than in 2020. Total South African store sales were 7.1% lower, whilst comparable South African store sales were 4.0% lower. Notwithstanding continued low mall-based foot traffic and the discretionary spending pressure on Game's core customer, the Game supply chain was particularly susceptible to unrest related supply chain disruption that resulted in insufficient in-stocks of some core appliances and home electronics in the period following the unrest.

Total sales in our Game stores outside South Africa (including 14 East and West Africa stores that are subject to divestiture discussions) of R2.6bn for the 48-week period were 13.6% lower than in the same period in 2020. In constant currency, total and comparable sales have decreased by 4.2% over the same period in 2020.

Sales from discontinued operations (that include Cambridge Food, Rhino, Massfresh and 14 Cash and Carry stores) of R6.5bn was 18.8% lower than in 2020, whilst comparable stores sales were 10.7% lower.

3. Turnaround Update

Despite the various headwinds experienced in 2021, including the continuing impact of Covid-19, the July civil unrest, slower HORECA recuperation, large commercial and Government construction projects slowdown, intermittent load shedding, a soft discretionary spending economy and group-wide strike action, Massmart management remains firmly focused on the execution of the turnaround strategy.

The re-lay of our 114 Game stores in South Africa has now been completed. This re-lay has provided important insight into the potential of individual stores and has resulted in the initial identification of 15 stores that will be subject to a possible sale. This decision represents an intensification of our initiative to optimise the Game store portfolio as we move beyond our turnaround imperative, to prioritise investment in core and high returning trading assets.

We have made significant progress on the previously announced sale process to withdraw from ex-Southern Africa Development Community (SADC) markets via the divestiture our 14-store Game portfolio in East and West Africa and anticipate being in a position to further update the market in the coming weeks.

The transaction to dispose of Cambridge Food, Rhino, Massfresh and 14 Cash & Carry Stores to Shoprite is currently under review by the Competition Commission with a recommendation to the Competition Tribunal expected during Q1 2022. We have been working closely with our advisors and the Tribunal, and have submitted feedback and supporting information on requests received to date.

In line with our strategic focus on developing our eCommerce proposition, we have now centralized our trading banner website, mobile and market place capabilities into a strong group-wide Center of Excellence underpinned by an e-Commerce investment programme which allocates significant capital and resources into the eCommerce business over the next 3 years. Our investment priority remains to develop improved eCommerce trading platforms, omnichannel sales and on-demand shopping and delivery services.

Management's Smart Spend initiative continues to deliver savings and management is on track to deliver the R1.9bn cost saving target by the end of 2022, with around 2/3 of this saving having been delivered by the end of this year.

4. July Unrest Insurance Update

As previously reported, the gross replacement cost of inventory lost and assets damaged during the July unrest is around R2.5bn and the total accounting loss, net of insurance proceeds, is estimated at around R650 million. Massmart received an initial insurance payment of R435 million (excluding VAT) from SASRIA in September 2021 and the balance of R565 million (excluding VAT) was approved by SASRIA in December 2021 as full and final settlement of the claim. The final payment from SASRIA is expected to be received after year-end.

In addition to the material damages suffered as set out above, lost trading profits resulting from damaged stores for the period July to December 2021 is estimated at around R450 million. Whilst the quantification of full business interruption losses continues, the Group is comfortable that it is adequately covered for the full extent of these losses. An initial business interruption payment of R100m (excluding VAT) was received from our insurers (non-SASRIA) in December 2021.

5. Trading Statement

As a result of the significant impact of material damages and lost trading income suffered as a result of the looting, as set out above, earnings and headline earnings will be negatively impacted.

Consequently, Massmart expects, with a reasonable degree of certainty, that its loss per share (EPS) will be at least 20% (160.4 cents per share) worse than the reported loss per share in 2020 of -802.3 cents, and headline loss per share (HEPS), will be at least 40% (170.7 cents per share) worse than the reported headline loss per share reported in 2020 of -426.8 cents per share. Headline earnings includes the impacted of the significant inventory write-off as a result of the looting.

The Group will issue a further trading statement to provide specific guidance once the Group is reasonably certain regarding the EPS and HEPS for the 52 weeks ended 26 December 2021.

6. Structuring of the Walmart loan and ongoing Walmart support

As reported, the 2021 financial year has been significantly impacted by the negative effects of the social unrest in KwaZulu-Natal and Gauteng which resulted in sales losses as a result of the loss of two large Makro stores, and significant damage to 41 other stores. Some of these stores remain closed. In addition, supply chain disruption due to loss of two general merchandise distribution centers in Kwa-Zulu-Natal and unrest related supplier service level challenges resulted in sub-optimal stock levels in key categories, specifically home-electronics and appliances. A further significant outcome of the unrest is that Massmart incurred a full charge to the income statement for losses in the 2021 financial year, whilst a material portion of insurance proceeds are only likely to be settled in 2022.

Given this context, Walmart, which has continued to demonstrate strong levels of support for Massmart, has agreed to optimize the balance sheet in the short to medium term, by extending the term of a portion of the R4 billion loan to Massmart. This will involve replacing R2bn (approximately US\$125m) of the loan by subscribing for a perpetual fixed rate unsecured note. This note is issued by Massmart Holdings Limited, will have a perpetual tenure, and is treated as equity in terms of IFRS. The note bears interest at 7.25% initially, and includes an interest step up of 225bps on 31 December 2023.

The remaining Walmart loan now has a 6-month tenure, which can be extended at the end of each tenure period. The balance of this loan after the subscription for the Perpetual Note above is approximately US\$117m and all other terms remain materially unchanged.

The financial information on which this operational update and trading statement was based has not been reviewed or reported on by the Company's auditors.

Johannesburg

21 December 2021

Sponsor: JP Morgan Equities South Africa (Pty) Ltd